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In the Supreme Court
OF THE
United States

OCTOBER TERM, 1971

No. 71-1503

DESOTO, INC., *Petitioner*

vs.

CATAPHOTE CORPORATION AND PERMA-LINE MANUFACTURING CORPORATION OF AMERICA, *Respondents*

PETITION FOR THE WRIT OF CERTIORARI to the United States Court of Appeals for the Ninth Circuit

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CATAPHOTE CORPORATION AND PERMA-LINE MANUFACTURING CORPORATION OF AMERICA, *Respondents*

PETITION FOR THE WRIT OF CERTIORARI
to the United States Court of Appeals for the Ninth Circuit

Petitioner prays that the Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit entered in the above-entitled case on November 4, 1971, a rehearing of which was denied on February 17, 1972.

OPINIONS BELOW

The opinion of the Court of Appeals (App. ii) is reported at 450 F.2d 769. The opinion for which review is sought is a sequel to an earlier opinion of the Court of Appeals (App. xxiii) reported at 356 F.2d 24, upon which

rehearing was denied by an opinion (App. xxx) reported at 358 F.2d 732 and upon which the writ of certiorari was denied at 385 U.S. 832. The earlier opinion of the District Court (App. xxxii) is reported at 235 F.Supp. 936. The present opinion of the District Court (App. xlii) is not reported.

JURISDICTION

The judgment of the Court of Appeals was entered on November 4, 1971. A timely petition for rehearing was denied on February 17, 1972 (App. xxii). The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT OF THE CASE

Respondent, Cataphote Corporation, brought a patent infringement action under Cataphote's Poole patent against petitioner DeSoto, Inc. (App. ii, xxiii). DeSoto in turn counterclaimed against Cataphote and respondent Perma-line Manufacturing Corporation of America alleging that Cataphote unilaterally and in concert with Perma-Line, a licensee under the patent, violated Sections 1 and 2 of the Sherman Act, 15 U.S.C. §§1 and 2 (App. ii). The District Court separated the issues, stayed the counterclaim, and held that the patent was invalid because of prior public use and on sale (App. ii, xxxii). The Court of Appeals affirmed (App. xxiii, xxx) and this Court denied the Writ of Certiorari (385 U.S. 832).

After a trial on the antitrust counterclaim, the District Court entered judgment that Cataphote and Perma-Line

did not violate the antitrust laws (App. xlii). The Court of Appeals affirmed (App. ii) and this petition seeks review of that affirmation.

Cataphote, on November 12, 1957, filed its Poole application to cover a thermoplastic pavement marking composition, used principally for traffic line markings on public thoroughfares (App. xxiv). This application for a thermoplastic composition, which used a styrene resin (App. xxix), was filed more than one year after Cataphote had placed the invention in public use or on sale in this country. That fact invalidated any patent issued upon the application under limitations imposed by 35 U.S.C. §102 (b), a matter adjudicated at the separate trial (App. xxxii, xxii).

Cataphote abandoned the 1957 patent application in 1960 in favor of a continuation-in-part application filed on December 18, 1959, prior to abandonment. The 1959 application included different resin ingredients, principally an alkyd resin, and contained three claims directed to the new resin products (App. xxix, xxx). Cataphote's plea that the public use and on sale bar should not apply to the alkyd resin claims was rejected because "Poole was not the inventor of the examples added by the application of December 18, 1959, which formed the basis of the specifications of claims 3, 4 and 5"; because "the particular form of product embodied in this claim is a non-substantial variation from Poole's original specifications of November 12, 1957"; and because "any asserted differences between the composition publicly used, on sale and sold and other forms of the patent are mere improvements or minor variations" (App. xxxi, xl).

Armed with the 1959 continuation-in-part application with its fatal infirmities yet to be adjudicated, Cataphote, on April 12, 1962, granted Perma-Line the exclusive nationwide use of the Poole patent under a license agreement which provided that Perma-Line would pay an initial fee and an annual royalty (App. iv). The license agreement required Cataphote to take prompt action and adequate steps to abate such infringements as were sufficiently material to interfere with Perma-Line's business and it contained an escape clause for Perma-Line should the patent be held invalid (App. iv, footnote 3).

On September 5, 1962 Cataphote sued DeSoto. On October 12, 1962, Perma-Line gave formal notice to Cataphote that it was suspending royalty payments until successful completion of the patent suit (App. v). The formal notice, referred to in the opinion, is vital to a full understanding of the opinion of the Court of Appeals and is attached hereto (App. xliv). The following month Cataphote also sued Crystalex for infringement and obtained an injunction by Crystalex's default enjoining further infringement (App. v, footnote 4). Crystalex was the "sole other manufacturer of this product" and "has abandoned the field" (App. ii, footnote 1).

DeSoto's claim that Cataphote unilaterally violated the Sherman Act was based upon *Walker, Inc. v. Food Machinery* (1965), 382 U.S. 172 (App. v). The Court of Appeals noted three misrepresentations practiced by Cataphote on the Patent Office, to wit, "(1) Cataphote represented that its product had not been offered to the public, when it had; (2) Cataphote alleged that Poole invented the alkyd resin compound, when he did not; and

(3) Cataphote fraudulently enlarged its patent claim to include the alkyd resin substance, which had been developed by another company." (App. vii.) That "another company" was Perma-Line. The Court rejected the *Walker* claim because "none of these misrepresentations were knowingly and willfully made" and because "DeSoto failed to prove that the alleged misrepresentation [as to the alkyd-styrene substitution] was 'material' to the patent" (App. viii).

DeSoto's claim that Cataphote and Perma-Line combined or conspired to monopolize the thermoplastic marking market was based upon *United States v. Singer Mfg. Co.* (1963), 374 U.S. 174 (App. xii). The Court of Appeals rejected the *Singer* approach because "the record indicates that the acts of Cataphote and Perma-Line were not done with the intent to violate the antitrust laws, but in good faith for valid business reasons"; because "here the evidence does not approximate the clear and substantial nature of the transgressions in *Singer*" and because "Cataphote and Perma-Line were in no position to dominate the highway marking market, alone or in concert" (App. xii).

Cataphote petitioned for rehearing (App. xiii) and the petition was denied (App. xxii).

QUESTIONS PRESENTED

1. Is the patent fraud proscribed by *Walker* "extremely circumscribed"—does *Walker* require "no less than clear, convincing proof of intentional fraud involving affirmative dishonesty, 'a deliberately planned and care-

fully executed scheme to defraud . . . the Patent Office' " —and does *Walker* require "a rigorous standard of deceit"?

2. Does Singer permit the use of an invalid patent and a suit brought by the patent owner for the purposes of establishing the exclusive posture of a licensee and eliminating harrowing competition by the only two competitors of the patent owner and the patent licensee (a) because their acts were not done with intent to violate the antitrust laws but in good faith for valid business reasons and (b) because the parties were in no position to dominate an overall market in which the parties competed in but a small part?

3. Does 15 U.S.C. 15 permit a person to recover attorneys' fees and costs incurred in defending a patent infringement action—itself an overt act in violation of the antitrust laws—as injury in his business or property.

REASONS FOR GRANTING THE WRIT

I. In holding that the patent fraud proscribed by *Walker* is extremely circumscribed in the respects stated, the Court of Appeals has decided an important question of federal law which has not been, but should be, settled by this Court.

In *Walker*, this Court said, *inter alia*:

> ". . . We have concluded that the enforcement of a patent procured by fraud on the Patent Office may be violative of §2 of the Sherman Act provided the other elements necessary to a §2 case are present . . ." [382 U.S. at 174).

• • • • •

". . . It must be remembered that we deal only with a special class of patents, i.e., those procured by intentional fraud." [382 U.S. at 176.]

* * * * *

"Walker's counterclaim alleged that Food Machinery obtained the patent by knowingly and willfully misrepresenting facts to the Patent Office. Proof of this assertion would be sufficient to strip Food Machinery of its exemption from the antitrust laws.[5] By the same token, Food Machinery's good faith would furnish a complete defense. This includes an honest mistake as to the effect of prior installation upon patentability—so-called 'technical fraud.'" [382 U.S. at 177].

[5]This conclusion applies with equal force to an assignee who maintains and enforces the patent with knowledge of the patent's infirmity.

We see nothing in the opinion which permits an easy escape in a patent fraud case involving three misrepresentations on the mere ground that none of them "were knowingly and willfully made" (App. vii), particularly where the good faith finding is based upon one only of those three representations, to wit, the finding "that Cataphote acted in good faith in representing that its composition had not been offered to the public within one year of its filing the patent application" (App. viii). While the Court of Appeals said that "the evidence indicates that everyone at Cataphote, including Poole himself, honestly believed that his invention covered the alkyd resin" (App. viii), the District Court made no such finding (App. xlii).

When one recognizes the truism that, "Experience shows that positive proof of fraudulent acts is not gen-

erally to be expected . . ." [*Castle v. Bullard* (1859), 23 How. (64 U.S.) 172, at page 187] and when one remembers that "Those who have applications pending with the Patent Office or who are parties to Patent Office proceedings have an uncompromising duty to report to it all facts concerning possible fraud or inequitableness underlying the applications in issue" [*Precision Co. v. Automotive Co.* (1945), 324 U.S. 806, at page 818], we submit that the opinion below places impossible strictures on *Walker*. We urge that this Court should clarify *Walker* so as to prevent its practical repeal by a narrowing construction.

II. In expanding the relevant market so as to include all highway marking devices and in failing to define the relevant market as solely the thermoplastic marking market, and in excusing the present litigation brought for the benefit of both Cataphote and Perma-Line to eliminate harrowing competition, the decision below is in conflict with *United States v. Singer Mfg. Co.* (1963), 374 U.S. 174. Although the Court of Appeals held that DeSoto's reliance upon *Singer* "is misplaced" (App. xii), the decision below is in conflict on two bases.

First. In defining the relevant market as including "all highway marking devices" because the combined use of thermoplastic, preformed plastic and raised buttons was only 1.8% of paint (App. lx, footnote 8), there is a real conflict in the treatment of the relevant market. In *Singer*, the District Court relied upon *United States v. duPont & Co.* (1956), 351 U.S. 377 (also cited herein, App. ix, footnote 8), to define the relevant market as including all automatic zigzag sewing machines, whereas the Govern-

ment claimed a specific monopoly power for only one of those four types [*United States v. Singer Manufacturing Company* (S.D.N.Y. 1962), 205 F.Supp. 394, at page 432]. In its brief on appeal to this Court (at 122, 9a), Singer relied upon the first *duPont* case and (at 12a) showed that the patented machine embraced less than 5% of the total market for all four kinds of machines. In reversing the District Court decision, this Court found the point so devoid of merit that it did not even mention it in its opinion. Stare decisis required similar treatment—particularly since the District Court made no finding in this case as to the relevant market.

Second. With respect to reading a good faith defense into *Singer,* the conflict is equally real. The formal notice from Perma-Line to Cataphote of October 12, 1962 to which the Court of Appeals referred in its opinion (App. v), had this to say (App. xliv):

> "I have asked your Bookkeeping Department to put your Invoice No. 38520 in a suspense account for the time being. In the light of the continuing of extensive sale and manufacture of thermoplastic striping by both DeSoto Chemical Corporation and Crystalex, we must assume for the time being at least, temporary failure of consideration under the terms of our license contract with you.
>
> "It is our fervent hope that you will be successful and soon in proving that your patent is valid and that both Crystalex and DeSoto are in an infringment position so that our exclusive posture under the license can be established and the harrowing competition of DeSoto and Crystalex can be eliminated. If, as and when this happens, we will, of course, promptly make all the payments called for under the terms of said contract."

These words, we submit, establish the *per se* violation which this Court noted in *Singer* at page 194:

> "Thus by entwining itself with Gegauf and Vigorelli in such a program Singer went far beyond its claimed purpose of merely protecting its own 401 machine—it was protecting Gegauf and Vigorelli, the sole licensees under the patent at the time, under the same umbrella. This the Sherman Act will not permit. As the Court held in *Frey & Son, Inc. v. Cudahy Packing Co.*, 256 U.S. 208, 210 (1921), the conspiracy arises implicitly from the course of dealing of the parties, here resulting in Singer's obligation to enforce the patent to the benefit of all three parties. While there was no contract so stipulating, the facts as found by the trial court indicate a common purpose[9] to suppress the Japanese machine competition in the United States through the use of the patent, which was secured by Singer on the assurances to Gegauf and its colicensee, Vigorelli, that such would certainly be the result . . . ." (footnote 9 omitted).

This, as we read *Singer,* tells all that a patent licensing and litigation program having the purpose of protecting the sole licensees under the patent and obligating the patent owner to enforce the patent for the benefit of the contracting parties is a *per se* violation of the antitrust laws. Since it is settled that good faith does not excuse a *per se* violation [*United States v. General Motors* (1966), 384 U.S. 127, 145-146; *United States v. Gypsum Co.* (1950), 340 U.S. 76, 87; *International Harvester Co. v. Missouri* (1914), 234 U.S. 199, 209; and *Standard Sanitary Mfg. Co. v. U.S.* (1912), 226 U.S. 20, 49], the good faith defense is not available in a *Singer* type situation. We urge this Court to review the herein asserted conflict with *Singer.*

III. In holding that DeSoto cannot recover because it did not prove "actual damage to DeSoto's business" (App. x), the decision is in conflict with *Hazeltine Research, Inc. v. Zenith Radio Corporation* (7th Cir. 1967), 388 F.2d 25, at page 35; *Dairy Foods Incorporated v. Dairy Maid Products Coop.* (7th Cir. 1961), 297 F.2d 805; *Switzer Brothers, Inc. v. Locklin* (7th Cir. 1961), 297 F.2d 39, at page 47; *Clapper v. Original Tractor Cab Company* (7th Cir. 1959), 270 F.2d 616, at pages 623-624; and *Kobe, Inc. v. Dempsey Pump Co.* (10th Cir. 1952), 198 F.2d 416, at page 418. Each of the foregoing cases holds that the expenditure of time and money to defend a patent infringement action brought in furtherance of an antitrust violation is an injury to the business or property of a competitor within the antitrust laws. In view of the square conflict between the opinion of the Court of Appeals in this case and the rule applied in the 7th and 10th circuits, we urge that the conflict is one which this Court should resolve.

For the above stated reasons, petitioner prays that the writ of certiorari should be granted.

Respectfully submitted,

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(Appendix Follows)

Appendix

PERTINENT STATUTES INVOLVED

15 U.S.C. §1:

"Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, . . . is declared to be illegal . . ."

15 U.S.C. §2:

"Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States . . . shall be deemed guilty of a misdemeanor . . ."

15 U.S.C. §15:

"Any person who shall be injured in his business or property by reason of anything forbidden in the anti-trust laws may sue therefor . . . and shall recover threefold the damages by him sustained . . ."

United States Court of Appeals for the Ninth Circuit

No. 25,118

Cataphote Corporation,
Plaintiff-Appellee,
vs.
DeSoto Chemical Coatings, Inc.,
Defendant-Appellant.

[November 4, 1971]

Appeal from the United States District Court
for the Northern District of California

Before: MERRILL and CHOY, Circuit Judges,
and POWELL*, District Judge.

CHOY, Circuit Judge:

Cataphote Corporation (Cataphote), DeSoto Chemical Coatings, Inc. (DeSoto), and Perma-Line Manufacturing Corporation of America (Perma-Line) manufacture and sell thermoplastic pavement-marking compositions used principally for highway traffic lane markings.[1] In 1962, Cataphote sued DeSoto, alleging infringement of Cataphote's patent for a thermoplastic composition (the Poole patent). DeSoto counterclaimed, alleging that Cataphote unilaterally and in concert with Perma-Line, a licensee

*The Honorable Charles L. Powell, United States District Judge, Spokane, Washington, sitting by designation.

[1]The sole other manufacturer of this product was Crystalex Corporation (Crystalex), which has abandoned the field.

under the Poole patent, violated Sherman Act §§1 and 2, 15 U.S.C. §§1 and 2.[2]

The District Court separated the issues, stayed the counterclaim, and without a jury tried the patent infringement claim, holding for DeSoto on the ground that the Poole patent was invalid because it had been placed in public use and sale more than one year prior to the patent application, 235 F.Supp. 936 (N.D.Cal. 1964). We affirmed. 356 F.2d 24 (9th Cir. 1966) (*Cataphote I*).

After trial, again without a jury, on the antitrust counterclaim, the District Court entered judgment for Cataphote and Perma-Line, holding that (1) Cataphote did not knowingly and willfully misrepresent to the Patent Office that the invention disclosed in its application had not been in public use for more than one year prior to the filing of the original application, nor had it knowingly and willfully misrepresented that Poole was the inventor; and (2) Cataphote and Perma-Line did not enter into their licensing agreement for the purpose of prosecuting an infringement action against DeSoto in furtherance of a scheme to violate the antitrust laws. DeSoto appeals. We affirm.

1. The Facts

In September 1955, Cataphote hired Arthur D. Little, Inc., to develop a substance to mark highways which would prove more durable than paint. John A. Poole, a

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[2] "1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States . . . is hereby declared to be illegal . . .

"2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with another person or persons, to monopolize any part of the trade or commerce among the several States . . . shall be deemed guilty of a misdemeanor . . ."

Little employee and the nominal patentee, developed the composition for which Cataphote eventually received a patent on May 29, 1962. The patent application filed November 12, 1957, contained, under oath, the assertions that the invention had not been in public use or sale for more than one year preceding the application, and that Poole was the inventor. While Poole had invented the composition having a styrene resin binder which was covered by the original application, the application was amended to substitute a binder of alkyd resins which DeSoto now claims Poole did not in fact, invent.

In the spring and summer of 1956, Cataphote had made limited "field installations" on public streets and highways of its newly developed thermoplastic composition, and had received about $650 from these sales. The Poole patent was invalidated because these limited sales indicated that Cataphote was engaged in commercial development and promotion of its product and not in further experimentation. *Cataphote I* at 27.

On April 12, 1962, Cataphote entered into a licensing agreement with Perma-Line. The contract provided that Perma-Line would have the exclusive, nationwide use of the Poole patent. In return, Perma-Line agreed to pay an initial fee and an annual royalty. The license was for the life of the patent and contained an escape clause for Perma-Line should the patent be held invalid. It also included a clause requiring Cataphote, at Perma-Line's request, to prosecute any patent infringers.[3]

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[3] "In the event that PERMA-LINE shall notify CATAPHOTE in writing of infringement by others of the Letters Patent to issue on the patent application aforesaid, such infringement being sufficient materially to interfere with PERMA-LINE's business here-

Prior to the licensing agreement, Cataphote had sent several letters to DeSoto, alleging infringements by DeSoto of the pending Poole patent. On September 5, 1962, Cataphote sued DeSoto. On October 12, 1962, Perma-Line, which had paid only the initial license fee, gave formal notice to Cataphote that it was suspending royalty payments until successful completion of the patent suit.[4]

2. Cataphote Alone

DeSoto's claim against Cataphote alone is based upon *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), in which the Supreme Court held that the knowing and willful misrepresentation of relevant facts to the Patent Office would not only invalidate a patent, but might also constitute ground for violation of §2 of the Sherman Act.[5] To recover under *Walker*, DeSoto must prove that (1) the Poole patent was procured by knowing and willful fraud practiced by Cataphote on the Patent Office; and (2) all the elements necessary to establish a §2 violation are present. Good faith is complete defense.

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under, CATOPHOTE shall take prompt action and adequate steps to abate said infringement. It is understood and agreed that CATAPHOTE shall not be required to file or undertake the prosecution of more than one (1) infringement suit hereunder at one time."

[4]The following month Cataphote also sued Crystalex for infringement of the Poole patent, and obtained an injunction by Crystalex's default, enjoining further infringement.

[5]*Walker* would undoubtedly allow recovery under §1 of the Sherman Act, if the requisite elements were proven. *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555, 567 n. 28 (5th Cir. 1970).

The patent fraud proscribed by *Walker* is extremely circumscribed. In *Walker* the Supreme Court excluded from its definition of fraud "an honest mistake as to the effect of prior installation upon patentability—so-called 'technical fraud.'" *Walker, supra,* at 177. Wholly inadvertent errors or honest mistakes which are caused by neither fraudulent intent or design, nor by the patentee's gross negligence, do not constitute fraud under *Walker*. *Beckman Instruments, Inc. v. Chemtronics, Inc.*, 428 F.2d 555, 566 (5th Cir. 1970); *Ansul Co. v. Uniroyal, Inc.*, 306 F.Supp. 541, 566 (S.D.N.Y. 1969). The road to the Patent Office is so tortuous and patent litigation is usually so complex, that "knowing and willful fraud" as the term is used in *Walker*, can mean no less than clear, convincing proof of intentional fraud involving affirmative dishonesty, "a deliberately planned and carefully executed scheme to defraud . . . the Patent Office." *Hazel-Atlas Glass Co. v. Hartford-Empire Co.*, 322 U.S. 238, 245 (1944). Patent fraud cases prior to *Walker* required a rigorous standard of deceit. *See, e.g., Precision Instrument Manufacturing Co. v. Automotive Maintenance Machinery Co.*, 324 U.S. 806, 816 (1945). *Walker* requires no less.[6]

The District Court found that Cataphote had not knowingly and willfully defrauded the Patent Office. This is a determination of fact; and as we explained in *Cataphote I*, our scope of review is severely limited.[7] DeSoto urges

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[6]*See Beckman Instruments, supra; Ansul Co., supra.*

[7]". . . Pursuant to Rule 52(a) . . . our obligation is to determine if the findings below were 'clearly erroneous.' This statutorily imposed standard does not vest us with power to reweigh the evidence present at trial in an attempt to assess which items should and which should not have been accorded credibility. Our task, rather,

that three misrepresentations practiced by Cataphote on the Patent Office warrant a finding of *Walker* fraud: (1) Cataphote represented that its product had not been offered to the public, when it had; (2) Cataphote alleged that Poole invented the alkyd resin compound when he did not; and (3) Cataphose fraudulently enlarged its patent claim to include the alkyd resin substance, which had been developed by another company. However, there is ample evidence in the record to support the District Court's conclusion that none of these misrepresentations were knowingly and willfully made.

Regarding prior use of the composition, it appears that, despite negotiations with public agencies and field installations in the spring and summer of 1956, the documentary evidence indicates that the Poole thermoplastic composition underwent changes throughout 1956, was being field-tested, and was not finalized until December 14, 1956, less than one year before the application filing date. Cataphote could reasonably feel that the limited volume of sales made in the previous summer totaling at most $650 would not constitute prior use sufficient to invalidate the patent, especially in the light of continued experimentation. While reliance on counsel's advice does not conclusively establish good faith, the opinion of Cataphote's counsel that he thought there had been no patent violation and his recommendation to file the application

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is to determine if there exists evidence of substance to support the findings of the trial court. Thus, it does not aid appellant's position on review to merely extract that evidence presented which supports its own position; rather, it must additionally demonstrate that no substantial evidence was presented which supports the district court findings in favor of appellee." *Cataphote I* at 26.

although he felt there was a certain risk involved are factors to be considered when weighing the reasonableness of Cataphote's belief that it had a patentable item. We find that the District Court was not clearly erroneous in concluding that Cataphote acted in good faith in representing that its composition had not been offered to the public within one year of its filing the patent application.

Similarly, the District Court was not clearly erroneous in finding that Cataphote had not knowingly and willfully misrepresented that Poole was the inventor of the alkyd resin compound. In *Cataphote I* we said that the change to an alkyd resin patent claim from a styrene resin claim was so slight as to be unimportant. The variation was but a minor alteration of the product and added nothing that was patentable. *Cataphote I* at 27. The evidence indicates that everyone at Cataphote, including Poole himself, honestly believed that his invention covered the alkyd resin. It is unrealistic to maintain, in any sense, that Poole was not "the original, first and sole inventor" of the compound covered by the original application. *Brown v. Myerberg*, 314 F.Supp. 939, 945 (S.D.N.Y. 1970).

Since in *Cataphote I* we adopted DeSoto's contention that the alkyd-styrene substitution was so minor that it introduced nothing that was patentable, DeSoto cannot now argue that but for the misrepresentation about the resin compound, the patent would not have been granted. In other words, DeSoto failed to prove that the alleged misrepresentation was "material" to the patent. Having failed to prove materiality, DeSoto's *Walker* claim must fail. *Walker, supra,* at 177; *SCM Corporation v. Radio Corporation of America,* 318 F.Supp. 433, 472 (S.D.N.Y. 1970).

Finally, the record indicates that the alkyd resin substitution did not enlarge the patent application to include other inventions. Nor would such enlargement while the patent was pending, even if intentionally made, constitute *Walker* fraud. *Crown Machine & Tool Co. v. KVP-Sutherland Paper Co.*, 297 F.Supp. 542. (N.D.Cal. 1967), aff'd on other grounds, 409 F.2d 1307 (9th Cir. 1969).

3. Cataphote and Perma-Line

DeSoto's last claim is that Cataphote and Perma-Line entered into their licensing agreement in order to lessen competition in violation of § 1 of the Sherman Act. DeSoto has failed at the outset to prove relevant market or that Cataphote and Perma-Line have sufficient power to monopolize.[8] *See Times-Picayune Publishing Company v. United States*, 345 U.S. 594 (1953); *Cornwell Quality Tools Company v. C.T.S. Company, Inc.*, ... F.2d ..... (9th Cir. June 24, 1971); *Case-Swayne Company v. Sunkist Growers, Inc.*, 369 F.2d 449 (9th Cir. 1966), rev'd on

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[8]DeSoto's belated efforts on appeal to define the relevant market as solely the thermoplastic marking market are unconvincing. The relevant market here is not so circumscribed, but includes all highway marking devices, be they thermoplastic compounds, paints, adhesive tapes or raised discs. All these products are "reasonably interchangeable by consumers for the same purpose" *United States v. E. I. duPont de Nemours & Co.*, 351 U.S. 377, 395 (1956). There is substantial evidence in the record that in such a relevant market, Cataphote either singly, or in combination with Perma-Line was impotent to monopolize anything. Cataphote with total sales of $2.5 million is clearly not the giant in an industry which includes DeSoto which had total sales of over $100 million at the time of trial. DeSoto is one of the country's largest paint manufacturers, and paint comprises approximately 98% of the entire pavement marking market. One local survey demonstrated that the combined use of thermoplastic, preformed plastic, and raised buttons was only 1.8% of paint. Cataphote simply does not have the power, even with the Poole patent, to exclude actual or potential competition.

other grounds, 389 U.S. 384 (1967). Nor has DeSoto proved injury to its business.[9] Additionally, there is ample evidence in the record to support the District Court's finding as not clearly erroneous. The license agreement for the Poole patent is a standard type of exclusive license containing standard provisions. A patentee has the untrammeled right to suppress his patent or to grant an exclusive or nonexclusive license. *Bement v. National Harrow Co.*, 186 U.S. 70, 94 (1902). That the Cataphote-Perma-Line license was exclusive is neither unusual nor sinister.

Similarly, there is nothing suspicious about the requirement that Cataphote bring suit against alleged infringers. Without this guarantee Perma-Line's exclusive license would be worth considerably less than it agreed to pay for it. Cataphote, as the patentee, would be in a much better position to handle the intricacies of patent litigation than would Perma-Line, the licensee. While the suit against DeSoto was instituted after the licensing agreement was signed, it was plainly foreshadowed by Cataphote's numerous letters to DeSoto complaining of alleged infringement. DeSoto's sudden entrance into the marketplace with a product remarkably similar to Cataphote's was enough to prompt the latter to investigate patent

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[9]The statute under which DeSoto sues states, "Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor . . ." 15 U.S.C. §15. DeSoto's right to seek private relief depends not on Cataphote's illegal conduct but upon actual damage to DeSoto's business. It has not proved such damage and therefore cannot recover. *Winckler & Smith Citrus Products Co. v. Sunkist Growers, Inc.*, 346 F.2d 1012, 1014 (9th Cir. 1965). Since we find no antitrust liability, we need not decide if DeSoto's attorneys' fees and costs incurred in *Cataphote I* are recoverable.

infringement and to institute its suit even before Perma-Line gave formal notice to sue under the contract. Nor is there any evidence that Perma-Line knew of the defects in Cataphote's patent application. Its action suspending royalty payments while urging Cataphote to prosecute the patent suit against DeSoto was a reasonable action taken to protect a business investment.

It is true that certain collaboration by businessmen to restrain access to or competition in a market is illegal *per se*, no matter what the lawful interest or economic or business rationale involved. *United States v. General Motors*, 384 U.S. 127 (1966). But we do not find such unlawful collaboration here. In *General Motors*, the Supreme Court condemned as illegal *per se* a conspiracy between General Motors and its franchised dealers in the Los Angeles area to eliminate the competition offered by discount car merchants. The Court found pervasive joint and collaborative action in the initiation, execution, and fulfillment of the plan, extensive private policing of the arrangement, a concerted refusal to deal with the discounters, and substantial price-fixing. With these facts economic excuses, good faith, and business interests were clearly irrelevant. *Compare Klor's, Inc. v. Broadway-Hale Stores, Inc.*, 359 U.S. 207 (1959) with *Joseph E. Seagram & Sons, Inc. v. Hawaiian Oke & Liquors, Ltd.*, 416 F.2d 71 (9th Cir. 1969).

The Cataphote-Perma-Line agreement can not be characterized as illegal *per se*. It is not one of those ". . . agreements or practices which because of their pernicious effect on competition and lack of any redeeming virtue are conclusively presumed to be unreasonable and there-

fore illegal without elaborate inquiry as to the precise harm they have caused or the business excuse for their use." *Northern Pacific Railroad Co. v. United States,* 356 U.S. 1, 5 (1958). The good faith of the parties is relevant to a determination of the reasonableness of a restraint on trade, and the record indicates that the acts of Cataphote and Perma-Line were not done with the intent to violate the antitrust laws, but in good faith for valid business reasons. DeSoto's reliance upon *United States v. Singer Manufacturing Co.,* 374 U.S. 174 (1963) is misplaced. *Singer* held illegal a cross-licensing scheme, the "overriding common design" of which was to exclude Japanese sewing machines from the American market, which Singer already dominated. Singer and its two European competitors conspired to enforce their patents for the benefit of all three parties. *Singer,* the sole American company which would enforce the patents, was the depository for the legal rights of all the parties. Here the evidence does not approximate the clear and substantial nature of the transgressions in *Singer.* Cataphote and Perma-Line were in no position to dominate the highway marking market, alone or in concert. They acted in good faith. The District Court was correct in finding that Cataphote and Perma-Line had not engaged in conduct illegal under the Sherman Act.

Affirmed.

No. 25,118

In the
United States Court of Appeals
For the Ninth Circuit

Cataphote Corporation,
Plaintiff-Appellee,
vs.
DeSoto, Inc.,
Defendant-Appellant,
vs.
Perma-Line Manufacturing Corporation of America,
Additional Defendant on Counterclaim-Appellee.

COMBINED PETITION FOR REHEARING and SUGGESTION OF APPROPRIATENESS OF A REHEARING IN BANC

DeSoto, Inc. petitions the Court to grant a rehearing of its judgment entered November 4, 1971 and suggests the appropriateness of a rehearing in banc for the following reasons:

Point I. In characterizing DeSoto's claim against Cataphote and Perma-Line as being one for violation of Section 1 of the Sherman Act (Slip Opinion, page 6), the

Court either overlooked or misapprehended that DeSoto claims that the conduct of Cataphote and Perma-Line violates both Sections 1 and 2 of that Act (AOB 63). The significance of this is that Section 2 prohibits monopolization and attempts to monopolize "any part" of commerce (15 U.S.C. 2, quoted Slip Opinion, p. 1).

Point II. In stating that DeSoto failed "at the outset" to prove a relevant market and in referring to DeSoto's "belated efforts on appeal to define the relevant market as solely the thermoplastic marking market" (Slip Opinion, p. 6), the Court either overlooked or misapprehended that DeSoto has at all times taken the position that the relevant market was solely the thermoplastic market. This appears from the pretrial order filed January 27, 1969 (CT 748, para. 2):

> "2. DeSoto contends that the part of the trade or commerce among the several states which Cataphote has attempted to monopolize or has conspired with Perma-Line to attempt to monopolize, herein 'the relevant market', is the manufacture and sale of thermoplastic pavement marking compositions applied as a hot melt and not the overall market for all kinds of traffic marking materials."

In support of its contentions, DeSoto offered in evidence the testimony and documents referred to in DeSoto's briefs (AOB 5-10, ACRB 12-13). In addition, DeSoto examined Norman Spellberg (see e.g. Tr. 42-43) and Leroy Smith, Jr. (see e.g. Tr. 195-197).

The significance is this. The treatment of DeSoto's efforts to prove the relevant market as being belated might unintentially cast an unwarranted shadow on DeSoto's

entire case which could deter either reargument by this Court in banc or further review by the Supreme Court.

Point III. In finding that the relevant market is not circumscribed to the thermoplastic marking field but includes all highway marking devices (Slip Opinion p. 6, footnote 8), this Court either overlooked or misapprehended the weight of the evidence. This issue comes to the Court without supporting findings of the District Court (CT 780-782, AOB 5). While this Court finds that all highway marking devices are reasonably interchangeable by consumers for the same purposes, overwhelming evidence that the part of commerce involved is the thermoplastic pavement marking field is found in the contemporaneous recognition of that fact by those directly involved in the marketplace (please see AOB 8-10). There was no time prior to the present action that anyone in the thermoplastic industry ever considered the relevant marketplace to include all highway marking devices. On such a record, we urge that the finding is in conflict with *United States v. du Pont & Co.* (1957), 353 U.S. 586, particularly pages 593-5; *International Boxing Club v. U.S.* (1959), 358 U.S. 242, particularly page 251; *United States v. Singer Mfg. Co.* (1963), 374 U.S. 174; and *United States v. Grinnell Corp.* (1966), 384 U.S. 563, particularly pages 570-574 (please see ACRB 13-14). *Van Camp & Sons v. Am. Can Co.* (1929), 278 U.S. 245 at page 253, is in accord on this point. Because of the square conflict, we urge this specific issue as being particularly appropriate for reargument in banc.

With the market properly defined, Cataphote and Perma-Line, as shown by the record, did have sufficient

power to monopolize. As the Court pointed out in its opinion (Slip Opinion p. 1, footnote 1), the sole other manufacturer of this product was Crystalex which has abandoned the field. This by virtue of an injunction under the Poole patent (please see AOB p. 10). It cannot be gainsaid that if Cataphote would have been successful in prosecuting its complaint herein, DeSoto would have been the victim of a similar injunction. Success in the litigation would have given reality to Perma-Line's "fervent hope" that "the harrowing competition of DeSoto and Crystalex" would be eliminated (please see AOB 42-43).

Point IV. In finding that DeSoto has not proved injury to its business (Slip Opinion p. 6, footnote 9), the Court either overlooked or misapprehended the holding in *Dairy Foods Incorporated v. Dairy Maid Products Coop.* (7th Cir. 1961), 297 F.2d 805, a decision relied upon by Cataphote (CB 5). In that case the Court held, page 808, that the expenditure of time and money to defend a patent infringement action is an injury to the business of a competitor within the antitrust laws. Other cases in accord include *Hazeltine Research, Inc. v. Zenith Radio Corporation* (7th Cir. 1967), 388 F.2d 25, at page 35; *Switzer Brothers, Inc. v. Locklin* (7th Cir. 1961), 297 F. 2d 39, at page 47; *Clapper v. Original Tractor Cab Company* (7th Cir. 1959), 270 F.2d 616, at pages 623-624; and *Kobe, Inc. v. Dempsey Pump Co.* (10th Cir. 1952), 198 F.2d 416, at page 418. In view of the square conflict between the opinion of the Court in this case and the rule applied in the Seventh and the Tenth Circuits, we urge that this issue is one as to which this Court should not take a position contra the prevailing rule absent a rehearing in banc.

Point V. In finding that the license agreement is a standard type containing standard provisions (Slip Opinion p. 7), this Court overlooked or misapprehended that the document itself was a fictitious agreement which did not express the true relationship between the parties.

The formal agreement dated April 12, 1962 recited a down payment of $4,388.41, "the receipt whereof is hereby acknowledged" (DX 56, tab 64, p. 1, quoted AOB 42). In fact, the actual down payment of $4,800.00 was not paid until November 30, 1962 (DX 56, tab 87, quoted AOB 43) after suits had been filed against the only competitors of Cataphote and Perma-Line (DX 55, para. 165, admitted DX 57, p. 2).

The formal agreement required Perma-Line to make annual royalty payments and did not permit Perma-Line to discontinue payment of royalties absent a holding of invalidity by a Court of competent jurisdiction (DX 56, tab 64, paras. III, IV and V). Under the real arrangement, all of the payments called for under the terms of the contract were to be made only after "our exclusive posture under the license can be established and the harrowing competition of DeSoto and Crystalex can be eliminated" (DX 56, tab 85, quoted AOB 43).

The formal agreement provided that Cataphote would take prompt and adequate steps to abate infringement "in the event that Perma-Line shall notify Cataphote in writing of infringement by others" (DX 56, tab 64, para. VII, quoted AOB 42). At the trial Mr. Alexander admitted that he never did give written notice to Cataphote demanding that it commence infringement litigation under the formal provision of the agreement (Tr. 480-481).

Under the real arrangement, Mr. Searight agreed with Mr. Alexander at the discussions in April of 1962 that Cataphote would proceed promptly as soon as they got the patent issued to initiate and prosecute infringement actions against both DeSoto and Crystalex (AOB 47, citing Tr. 324).

The formal agreement provided that Cataphote should not be required to file or undertake the prosecution of more than one infringement suit at one time (DX 56, tab 64, para. VII, quoted AOB 42). Under the real arrangement, Cataphote did not even receive the down payment until after both suits had been filed (DX 56, tab 87, DX 55, para. 165, admitted DX 57, p. 2, please see AOB 43).

The formal agreement gave Cataphote the right to cancel and terminate if Perma-Line should fail "to pay to Cataphote any of the royalties becoming due and payable hereunder" (DX 56, tab 64, para. VIII). Perma-Line made no payments other than the down payment and Cataphote did not cancel (please see AOB 43, citing Tr. 265-267, 482, 484)—all of which proves that under the real arrangement, the obligation to pay did not flow from the "license to manufacture and sell material" (DX 56, tab 64, para. I) but to the contrary the ongoing royalties did not become due and payable until and unless Cataphote became successful in eliminating the competition.

One can search the cases in vain for authority that any entire arrangement such as that proved by the evidence in this case is a standard type of exclusive license containing standard provisions. To the contrary, Cataphote and Perma-Line worked out an "arrangement of not

having other companies come into or remain in the field" (AOB 47, citing Tr. 323).

When the real arrangement between the parties is thus apprehended, it becomes clear, we submit, that DeSoto's reliance upon *United States v. Singer Mfg. Co.* (1963), 374 U.S. 174 is not misplaced as the Court holds (Slip Opinion p. 8). As in *Singer,* one motivation of the arrangement was the elimination of competition (please see AOB 68-70, ACRB 12). In view of the square conflict between the opinion of the Court in this case, and the holding of *Singer,* we urge that this issue is likewise particularly appropriate for reargument in banc.

Point VI. In holding that because this Court earlier adopted DeSoto's contention that the alkyd substitution introduced nothing that was patentable, DeSoto cannot now argue that but for the misrepresentation about that resin compound, the patent would not have been granted (Slip Opinion p. 5), the Court overlooked or misapprehended both the nature of the prior argument and the nature of the present contentions. On the prior record, DeSoto successfully proved two facts which prevented Cataphote from avoiding the bar of prior public use by claiming that the alkyd resin was not barred by the same public use as was the styrene resin. This Court, in *Cataphote Corporation v. DeSoto Chemical Coatings, Inc.* (9th Cir. 1966), 358 F.2d 732, at page 733, affirmed the District Court finding:

> ". . . the evidence is further clearly to the effect that Poole was not the inventor of the examples added by the application of December 18, 1959, which form the basis of the specifications of claims 3, 4 and 5."

The fact that DeSoto also proved that the particular form of the product embodied in these claims was a non-substantial variation from Poole's original specifications of 1957 and that any asserted differences were mere improvements or minor variations does not justify, we submit, the conduct of Cataphote and Perma-Line in rallying 'round that patent. Without the analysis and copying of the Perma-Line material and without the revamping of the patent application to cover that material, there would have been no patent claims around which Cataphote and Perma-Line could have joined hands. The purpose of the amendment to the application was to enlarge and to extend the scope of the claims (AOB 37-38, quoting Tr. 656). This is, we submit, an example of classic abuse of the patent system in conflict with public policy, a public policy announced long prior to the antitrust laws in *Railway Co. v. Sayles* (1878), 97 U.S. 554, 563-564:

> ". . . Courts should regard with jealousy and disfavor any attempts to enlarge the scope of an application once filed, or of a patent once granted, the effect of which would be to enable the patentee to appropriate other inventions made prior to such alteration, or to appropriate that which has, in the meantime, gone into public use."

Point VII. Finally, in holding that "The evidence indicates that everyone at Cataphote, including Poole himself, honestly believed that his invention covered the alkyd resin" (Slip Opinion p. 5), this Court overlooked or misapprehended the nature of Mr. Poole's testimony as received in the first trial. Mr. Poole testified that he could not recall specifically making the exact formulation and that Cataphote could have done it for all he knew (please

see Brief for Appellee filed in No. 19,827, p. 44). Mr. Poole never did testify that he ever believed that his invention covered that alkyd resin. Nor did anyone associated with Arthur D. Little, his employer, so testify. Indeed, Mr. Searight did not even tell his own attorney that the formulation was copied from the Perma-Line product (please see AOB 36).

The present decision approves a course of conduct so far remote from the legitimate use of the patent system and so far in conflict with established principles that it should not, we submit, stand as authority in this Circuit without a full concurrence of this Court in banc. For that reason, we suggest the appropriateness of a rehearing in banc under Rule 35 of the Rules of Appellate Procedure.

Respectfully submitted,

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Dugald S. McDougall,

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United States Court of Appeals
For the Ninth Circuit

No. 25,118

Cataphote Corporation,
Plaintiff-Appellee,
vs.
DeSoto Chemical Coatings, Inc.
Defendant-Appellant,

[February 17, 1972]

ORDER DENYING PETITION FOR REHEARING AND REJECTING SUGGESTION FOR REHEARING IN BANC

Before: MERRILL and CHOY, Circuit Judges, and POWELL,* District Judge.

The panel as constituted in the above case has voted to deny the petition for rehearing and to reject the suggestion for a rehearing in banc.

The full court has been advised of the suggestion for an in banc hearing, and no judge of the court has requested a vote on the suggestion for rehearing in banc. Fed. R. App. P. 35(b).

The petition for rehearing is denied and the suggestion for a rehearing in banc is rejected.

/s/ Herbert Y. C. Choy
United States Circuit Judge

*The Honorable Charles L. Powell, United States District Judge, Spokane, Washington, sitting by designation.

United States Court of Appeals for the Ninth Circuit

No. 19,827

Cataphote Corporation, a corporation,
Appellant,

vs.

De Soto Chemical Coatings, Inc.,
a corporation,
Appellee.

[February 8, 1966.]

Appeal from the United States District Court of the Northern District of California.
Southern Division.

Before: BARNES, HAMLIN and ELY, *Circuit Judges*

BARNES, *Circuit Judge:*

This appeal arises from a district court judgment adverse to plaintiff-appellant, Cataphote Corporation, in a patent infringement suit instituted against defendant-appellee, De Soto Chemical Coatings, Incorporated.[1]

The district court had jurisdiction pursuant to 28 U.S.C. § 1338. This court has jurisdiction pursuant to 28 U.S.C. § 1291.

The district court held appellant's patent claim invalid on the basis of the limitations imposed by 35 U.S.C. § 102(b). This section provides:

[1]The determinative issue was raised in defendant's motion for a separate trial on that issue.

> "A person shall be entitled to a patent unless—
> • • •
> (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States. . . ."

The district court concluded that appellant's patent ownership was invalid because "the invention" of that patent was "in public use or on sale in this country, more than one year prior to the date of application for patent in the United States." The sole issue on this appeal is whether or not the district court erred in concluding that appellants' patent application was untimely.

The patent involved in this infringement proceeding purports to cover a thermoplastic pavement-marking composition, used principally for traffic lane markings on public thoroughfares. In September 1955, Cataphote had hired Arthur D. Little, Inc., to engage in research to develop a marking substance which might prove more durable than the paint which was customarily used for this purpose. John A. Poole, a Little employee, and the nominal patentee, developed the substance for which Cataphote was eventually granted a patent. It is the timeliness of the application for that patent that concerns us in this present controversy. Appellee's defense, sustained by the district court, contended that appellant's patent application of November 12, 1957 had been filed more than one year after the subject matter had been in public use and on sale in the United States, and, therefore, the patent was clearly void under the express terms of 35 U.S.C.

§ 102(b). The express purpose of this statutory provision was to prevent the extension of the monopoly period permitted by the patent laws by requiring an inventor to make timely application so that the patent period might commence to run without undue delay. The district court concluded that appellant's patent, if sustained, would result in a circumvention of both the terms and policy of section 102(b).

The disputed factual issue contested at trial and raised again on this appeal concerns whether or not the patent application of November 12, 1957 was filed more than one year after the product was placed in public use or on sale in this country; *i.e.*, the factual issue before the district court was whether the thermoplastic was in public use or on sale prior to the critical date of November 12, 1956. The district court concluded that it was, rejecting appellant's contention that its activities with respect to the thermoplastic prior to the crucial date were merely *experimental*.

The determination of whether appellant's activities prior to the critical date were merely experimental or were of the kind set out in section 102(b) is a matter left for the consideration of the trier of fact. The resolution of this question depends principally upon a careful examination of each item of evidence and an evaluation thereof to judge the nature and purpose of the course of conduct of the purported patent holder. We cannot accept appellant's characterization of this problem as one involving a matter of law, and, therefore, one free of the limitations imposed on an appellate court when reviewing the factual determinations of the court below. The resolution

of the sole issue raised regarding section 102(b) depends entirely on a determination, from the totality of evidence presented by both parties, of the nature of the acts committed prior to the critical date and the purpose that motivated the commission of those acts. To the extent that issues can be accurately characterized as solely questions of law or fact, the crucial issue involved in this controversy is an issue of fact.

Appellant, though reluctant to characterize the issue involved as one of fact, does nevertheless ground its argument on a purported demonstration of the "clearly erroneous" nature of the district court's findings. In so doing, however, appellant disregards the severe limitations imposed on an appellate court in reviewing findings of fact. It is not our function to reevaluate the evidence presented below. We cannot substitute our judgment for the first-hand evaluation made by the trier of fact. Pursuant to Rule 52(a) of the Federal Rules of Civil Procedure, our obligation is to determine if the findings below were "clearly erroneous." This statutorily imposed standard does not vest us with power to reweigh the evidence presented at trial in an attempt to assess which items should and which should not have been accorded credibility. Our task, rather, is to determine if there exists evidence of substance to support the findings of fact of the trial court. Thus, it does not aid appellant's position on review to merely extract that evidence presented which supports its position; rather it must additionally demonstrate that no substantial evidence was presented which supports the district court findings in favor of appellee.

We have examined the entire record of this proceeding as well as the briefs of both parties. We cannot say that

no substantial evidence exists to support the factual findings of the district court.[2] Nor are we of "the definite and firm conviction that a mistake has been committed." *United States v. United States Gypsum Co.*, 333 U.S. 364, 395 (1948). The facts, as fully set forth in the district court's findings,[3] reveal that appellant had instituted a period of market testing, well beyond the product experimental stage, substantially in advance of the critical date. As one example, Cataphote's president, in a letter of February 6, 1956, unambiguously instructed the developing company, Arthur D. Little, Inc., to discontinue its chemical research as of February 15, 1956, and devote its efforts instead to the development of an applicating machine.[4] The evidence also discloses that in the spring and summer of 1956 Cataphote began negotiations with public agencies in many parts of the country for sales of the newly-developed thermoplastic process. The sales that eventually evolved from these negotiations, in August and September 1956, were concededly of a limited volume and

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[2]Early in 1956, tests were made outside the Cataphote plant in Florwood, Mississippi. In May and June 1956, Cataphote sold the proposed thermoplastic composition to the cities of Grand Rapids, Lansing and Jackson, Michigan, and negotiated with public agencies in Atlanta, Georgia, Dallas, Texas and Toledo, Ohio. Sales in Toledo, Ohio and Chicago Illinois developed in August and November 1956. Regular invoices were rendered when sales occurred, and commissions paid on these sales to Cataphote's salesman Reed.

The trial court was undoubtedly influenced in his conclusion these were not experimental installations, because of the paucity of testimony that anyone on behalf of Cataphote had at any time inspected the results of pavement use.

[3]Finding of Fact 6 (C. T. p. 30), adopting as subsidiary findings those set forth in its memorandum of decision filed October 8, 1964 (C. T. pp. 17-28).

[4]Appellant urges that this letter was countermanded by oral instructions from Cataphote's president, but doubtless the fact that Little records show "virtually no work" on the chemical development for the year 1956 after February 15, 1956, influenced the judgment of the trier of the facts.

at a reduced price. But these factors are not conclusive evidence that the product was still being treated experimentally as that term is used in patent law. Rather these factors are consistent with a program of market testing, product introduction, and sales promotion that is consistent with a stage of product development well beyond the experimental. The principal purpose of these sales to public agencies was commercialization of the product, not further experimentation and testing of the ultimately patented product. At this stage of commencement of negotiations, the product was sufficiently developed that its commercial promotion could have been the primary motivation behind appellant's course of conduct.

The district court findings recite a number of additional indicia of the commercialization of the thermoplastic which substantiate the basic finding of the court and which we do not consider it necessary to here repeat. They also are consistent with the finding that the entire course of appellant's conduct after February 1956 was to promote product *sales*, and any testing that occurred had as its primary objective an ascertainment of the product's marketability. This activity, as noted by the district court here (as well as the court in *Smith & Davis Mfg. Co. v. Mellon*, 58 Fed. 705 (8th Cir. 1893)), is typical of "a trader's, and not an inventor's, experiment," and "such a use does not carve an exception out of the statute." We conclude that the district court properly found that appellant's patent, arising from its application filed November 12, 1957, was invalid.[8]

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[8]Appellant also urges that this was not a proper case for determination by separate trial of one issue; that the issue of experimental use *vis-a-vis* commercial use is related to the issue of inven-

An additional charge of error is raised by appellant's challenge of the district court's finding that a highway-marking product covered by another patent number was also rendered invalid by the acts prior to the critical date. The patent application of November 12, 1957 concerned a thermoplastic composition which used a styrene resin. That application was abandoned in 1960 and was supplanted by a continuation-in-part application which included different resin ingredients (principally alkyd resin). Appellant urges that the finding of public use and sale in excess of one year prior to patent application should not have been applied to this new patentable alkyd resin product.

We conclude this argument is untenable. The alkyd resin patent claim is clearly barred by the same public use and sale which barred the styrene resin claim. The variation represented by the change in resin composition was not demonstrated to have entailed a patentable novelty. The variation involved was but a minor variation of the product, and added nothing which was patentable. The prior public use or sale which invalidated the patent application of November 12, 1957 similarly invalidated the continuation-in-part application.

The judgment of the district court is *affirmed*.

(This opinion modified by order of 3/28/66.)

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tion—*i.e.*, patentability. But it is also material on the issue of prior use. In ordering a separate trial, the district court did not abuse the discretion conferred by Rule 42(b), Federal Rules of Civil Procedure.

United States Court of Appeals for the Ninth Circuit

No. 19,827

Cataphote Corporation, a corporation,
Appellant,

vs.

DeSoto Chemical Coatings, Inc., a corporation,
Appellee.

[March 28, 1966.]

On Petition for Rehearing.

Before: BARNES, HAMLIN and ELY, Circuit Judges.

The opinion of this Court, filed February 8, 1966, is modified by striking the last line of said opinion, and inserting the following in its place:

"We base our conclusions expressed in the last paragraph on the following findings made below, and appellee's notes 11, 12 and 13, hereinafter set forth, as they appear in appellee's brief:

'Although plaintiff, Cataphote, now makes the point that the compositions used in these public uses, on sale and sales were not the same compositions as claimed in some of the claims of the patent (e.g., claims 3, 4 and 5, added by the application filed December 18, 1959), Cataphote has previously admitted in its Answers to Interrogatories that all of the Thermaline materials so used and sold were covered by the patent, explicitly stating in Answer to Interrogatory No. 46 that "all sales of Thermoplastic highway marking compositions sold by Cataphote both before and after

the issuance of the patents in suit were in accordance with the teachings of the patents in suit or the applications upon which the patents were based."

'It was in large part upon this admission and plaintiff's ostensible theory of the case that the issue on separate trial would be merely whether the alleged public uses and on sale were "experimental" in nature that a separate trial of the issue of public use and on sale was ordered by the Court. (See, Memorandum of Decision [on defendant's motion for separate trial of issues]), filed herein May 19, 1964.

'Apart from this evidence and this theory of the case, the evidence is further clearly to the effect that Poole was not the inventor of the examples added by the application of December 18, 1959, which form the basis of the specifications of claims 3, 4 and 5.[11] The evidence also clearly shows that the particular form of the product embodied in these claims is a nonsubstantial variation from Poole's original specifications of November 12, 1957[12] and, further, that any asserted differences between the composition publicly used, on sale, and sold and other claims of the patent are mere improvements or minor variations.[13]

"We agree with appellees that these findings are supported by the evidence.

"The judgment of the district court is *affirmed*."

With this change, the petition for rehearing is denied.

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[11]Specification 11 (AOB 19-20) challenges this finding; the evidence which supports it is discussed in this brief, pages 42-46.

[12]Specification 12 (AOB 20) challenges this finding; the evidence which supports it is discussed in this brief; pages 46-47.

[13]Specification 13 (AOB 20) challenges this finding; the evidence which supports it is discussed in this brief; pages 46-47.' (Appellee's Brief, pp. 12-13.)

Cataphote Corporation,
Plaintiff,
vs.
DeSoto Chemical Coatings, Inc.,
Defendant.

No. 40985

United States District Court,
N. D. California, S. D.

Oct. 8, 1964.

SWEIGERT, *District Judge.*

Pursuant to previous order of the Court a separate trial has been had of the defenses of public use and on sale (Title 35 USC § 102(b)).

Since the date of patent application for purposes of this case is November 12, 1957, the critical date involved in this defense is November 12, 1956.

The evidence shows in substance and effect that in 1955 Cataphote had marketed a pavement marking composition after very limited testing but, receiving complaints about it turning black, stopped production and set about looking for a better product.

It found out about a British product and used that formulation in 1955, but, finding it was not sufficiently durable for American volume and traffic weight, closed the line and in late September, 1955, entered into arrangements with Arthur D. Little Co., (hereinafter referred to as Little Co.) to develop a more suitable product.

Between October, 1955 and February, 1956, John A. Poole, an employee of Little Co., and the nominal patentee, developed several formulations, including specific samples recited in the ultimate patent, and transmitted them to Cataphote. Neither Poole nor Little Co., imposed any conditions as to the use of these formulations upon Cataphote or on any persons with whom Cataphote might deal.

Cataphote proceeded to test these formulations by laying them down at various locations in the streets in the vicinity of its Florwood, Mississippi plant.

On February 6, 1956, Cataphote, through its then president, wrote to Little Co. suggesting that chemical research be discontinued as of February 15, 1956, provided that nothing superior to this styrene line was found by that time and that the balance of the appropriation should be applied to the mechanical division for development of a machine to extrude the line.

The witness, C. H. Searight, now president of Cataphote testifies that this discontinuance letter was orally countermanded by him but the records of Poole and Little Co. significantly show that after February, 1956, there were virtually no work notes of Little Co. on the chemical development for the rest of that year.

In the spring and summer of 1956 Cataphote entered into negotiations with various public agencies—Atlanta, Georgia; Dallas, Texas; Grand Rapids, Lansing and Jackson, Michigan; and Toledo, Ohio—for sale to them of its product.

The negotiations with Atlanta and Dallas had no results but in May, 1956, actual sales and installations were made at Grand Rapids, Lansing and Jackson, Michigan and, later in August, 1956, at Chicago and Des Plaines, Illinois and later in September, 1956, further installations at Toledo, Ohio.

The evidence shows beyond doubt that all of these actual installations constituted not only "public use" and "on sale" of the product, but actual sales of it to these various governmental agencies—sales clearly evidenced by purchase orders and paid for—unless it can be found, as contended by plaintiff Cataphote, that the sales were made, not for commercial purposes, but only for the purpose of further experimentation and testing of the ultimately patented product.

Although the burden of proving prior "public use" or "on sale" is upon the party alleging such affirmative defense (the defendant DeSoto here), *Tucker Aluminum Products, Inc. v. Grossman,* 312 F.2d 293 (9th Cir. 1963), it has been held that, where prima facie proof of such defense is met only by the claim that the prior use or on sale was not such within the meaning of the statute because it was for the purpose of perfecting an incomplete invention by tests and experiments, such proof on the part of the patentee should be "full, unequivocal and convincing," *Smith & Griggs Mfg. Co. v. Sprague,* 123 U. S. 249, 264, 8 S. Ct. 122, 31 L. Ed. 141 (1887). See also, *Merrill v. Builders Ornamental Iron Co.,* 197 F. 2d 16, 19 (10th Cir. 1952); *A. Schrader's Sons, Inc. v. Wein Sales Corp.,* 9 F. 2d 306 (2d Cir. 1925).

Careful consideration of the evidence, both oral and documentary, leads the Court to find and conclude that, although the product was a new product whose saleability in the market required demonstration of its usefulness to prospective customers, the "public use", the "on sale" and the actual sales proven by defendant were not for the mere purpose of experimentation or testing of the ultimately patented product by Poole, Little Co., or Cataphote itself, but were for the commercial purpose of demonstrating to the trade what the patentee and Cataphote then considered to be a completed product already satisfactorily reduced to practice.

The evidence shows that the product had been developed, tested and reduced to practice satisfactorily to Cataphote as early as March or April, 1956, to a point at which Cataphote not only considered discontinuance of further chemical development of the product and transfer of attention to development of more suitable machine to extrude it, but also considered, although for some reason did not make application for, a patent on the product.

The evidence shows that as early as March, 1956, Cataphote was informing the trade, e. g., letter to Dr. Hasli, that it manufactured a plastic line applied hot which was much longer lasting than other products; that in April, 1956, it was inviting purchase orders from cities, e. g., Atlanta, Ga., for whatever size pilot installations of Cataphote "Thermaline" the city felt would enable it, i. e., the city, to adequately evaluate the material; that in May, 1956, it was informing cities, e. g., Dallas, of Cataphote's conditions for a test of "our new striping product",; that

by May, 1956, it was establishing selling prices for the product which were listed by September, 1956 and maintained throughout its later marketing; that by June, 1956, it was arranging for letterheads designating the product as its product, the letterheads being ordered in July, 1956, and actually put into use by October, 1956, that by April, 1956, it adopted the trademark "Thermaline" for the product and in June, 1956, it was applying to the Patent Office for a trademark registry on that name and stating in connection therewith that its first use for goods in interstate commerce had been in April, 1956 and that the first application of a commercial nature was at Lansing, Michigan on May 23, 1956.

In May, 1956, the actual installations at Lansing, Grand Rapids and Jackson, Michigan and Toledo, Ohio, were made under arrangements which, according to the correspondence and documents, had all the earmarks of ordinary commercial sales without any contemporaneous indication of a limitation that the sales were for the purpose of further experimentation or testing of the product by Cataphote and with every indication that the sales were pursuant to a Cataphote program to commercially promote the product by such pilot sales as would demonstrate the usefulness, advantages and durability of Cataphote's new product to the purchasers who constituted its obvious market.

In fact, the contemporary correspondence connected with these and the later 1956 sales, refers, not to experimentation, but to "demonstrations". Cataphote did not indicate to any of the purchasers that these and later 1956 sales and installations were for its own experimentation or test-

ing of the product. No evidence was produced from any of the public agencies to show any such understanding or circumstances.

When the material at Lansing and at Grand Rapids eventually wore out after about six months use, Cataphote replaced one and granted a credit for the other.

In August, 1956, similar actual sales and installations were made at Chicago and Des Plaines, Illinois, which were billed by Cataphote on regular open account.

In September, 1956, Cataphote accepted similar purchase orders from the State of Ohio and in November, 1956, installed the product at Toledo and billed for the material.

It is true, as argued by plaintiff, Cataphote, that purchasers of a new traffic product considerably more expensive than conventional paint, would have to be convinced by actual use and demonstration before committing themselves to larger purchases for more extensive use. In fact, some cities, e. g., Atlanta and Dallas, would not purchase any of the Cataphote product.

However, as stated in *Smith & Davis Mfg. Co. v. Mellon,* 58 F. 705 (8th Cir. 1893), a testing of the market, to see how the product will take with the trade is "a trader's, and not an inventor's, experiment. Such a use does not carve an exception out of the statute." See also, *Wilkie v. Manhattan Rubber Mfg. Co.,* 14 F. 2d 811 (3rd Cir. 1926).

The fact, therefore, that the total of these first actual sales of the Thermaline product by Cataphote did not exceed about $650 (out of which regular commissions were paid to Cataphote sales representatives in the various markets) is understandable.

Further, it appears from the evidence that during the year 1956 Cataphote was not quite yet in a position to make, deliver and install large sales of Thermaline, not because of the product, itself, but because it had not yet developed a suitable and efficient machine with which to apply the product on the streets in large quantities. It did not develop such a machine until 1957—a fact which largely explains the only definite contemporary claim of experimentation ever made by Cataphote—its correspondence with its sales representatives, Bell and Gustus, at Toledo, Ohio, as late as December, 1956.

This fact tends further to explain why Cataphote did not launch an advertising program to promote the sale of Thermaline until early 1957.

In any event, the amount involved in a sale or public use of a product, although it should be considered in determining the true character of the transaction, is by no means the legal test for public use or on sale—nor is mere lack of profit or market success. See *Consolidated Fruit-Jar Co. v. Wright,* 94 U. S. 92, 24 L. Ed. 68 (1876); *Sperry Rand Corp. v. Bell Telephone Laboratories, Inc.,* 208 F. Supp. 598, 604 (S. D. N. Y. 1962), appeal dismissed 2 Cir. 317 F. 2d 491.

The evidence shows that except for reports concerning the initial sales and installations, Cataphote maintained no regular or detailed records concerning the performance of the product in use nor did it make any sampling reports on the so-called experimental installations either for itself or for Little Co., or Little Company's employee, Poole, the actual inventor, neither of whom participated in the experiments or in any consultations about the results.

On the contrary, the evidence shows that any interest of Cataphote and its employees in following up on the so-called experimental installations was expressed in a most vague, casual and irregular manner. Only the normal hopefulness of a seller that his product would hold up well in use by the purchasers as distinguished from an inventor's check of experiments and tests, is indicated by the evidence.

Although plaintiff contends that it did not determine to market its Thermaline product commercially until about December, 1956, (just within the allowable one year period) it had in September, 1956, shipped the product from New Orleans to Shabrag Co., Teheran, Iran, pursuant to an outright sale transaction for demonstration and sample purposes. Although this foreign "on sale" transaction does not fall within the provisions of Title 35 Sec. 102, it does shed light upon the question whether the other 1956 "on sale" and "public use" transactions in the United States were commercial or experimental.

The Court is of the opinion that the evidence in this case brings it within the ruling of *Root v. Third Avenue Railroad Co.*, 146 U.S. 210, 225, 13 S. Ct. 100, 36 L. Ed. 946 (1892); *Tucker Aluminum Products, Inc. v. Grossman, supra; Paraffine Companies v. McEverlast, Inc.*, 84 F.2d 335, 340 (9th Cir. 1936); *Chicopee Mfg. Corp. v. Columbus Fiber Mills Co.*, 165 F. Supp. 307 (M. D. Ga. 1958)—rather than the rulings of *City of Elizabeth v. American Nicholson Pavement Co.*, 97 U.S. 126, 24 L.Ed. 1000 (1877) (distinguished in *Root, supra*); *Beedle v. Bennett*, 122 U. S. 71, 77, 7 S. Ct. 1090, 30 L. Ed. 1074 (1886); *Servo Corp. of America v. General Electric Co.*, 220 F. Supp. 473; 482

(W. D. Va. 1963); rev'd on other grounds, 4th Cir. 1964, 337 F. 2d 716; *Sperry Rand Corp. v. Bell Telephone Laboratories, Inc., supra; Ushakoff v. United States,* 327 F. 2d 669 (Ct. Claims, 1964); *Amerio Contact Plate Freezers, Inc. v. Belt-Ice Corp.,* 316 F. 2d 459, 465 (9th Cir. 1963).

Although plaintiff, Cataphote, now makes the point that the compositions used in these public uses, on sale and sales were not the same compositions as claimed in some of the claims of the patent (e. g., claims 3, 4 and 5, added by the application filed December 18, 1959), Cataphote has previously admitted in its Answers to Interrogatories that all of the Thermaline materials so used and sold were covered by the patent, explicitly stating in Answer to Interrogatory No. 46 that "all sales of Thermoplastic highway marking compositions sold by Cataphote both before and after the issuance of the patents in suit were in accordance with the teachings of the patents in suit or the applications upon which the patents were based."

It was in large part upon this admission and plaintiff's ostensible theory of the case that the issue on separate trial would be merely whether the alleged public uses and on sale were "experimental" in nature that a separate trial of the issue of public use and on sale was ordered by the Court. (See, Memorandum of Decision [on defendant's motion for separate trial of issues]), filed herein May 19, 1964.

Apart from this evidence and this theory of the case, the evidence is further clearly to the effect that Poole was not the inventor of the examples added by the application of December 18, 1959, which form the basis of the specifications of claims 3, 4 and 5. The evidence also clearly shows that the particular form of the product embodied

in these claims is a non-substantial variation from Poole's original specifications of November 12, 1957, and, further, that any asserted differences between the composition publicly used, on sale, and sold and other claims of the patent are mere improvements or minor variations.

An improvement or mere variation of a minor character in a product, which is not the substance of the patent and does not add anything in itself patentable to it, will not avoid the invalidating effect of a prior public use or on sale. *International Tooth Crown Co. v. Gaylord,* 140 U. S. 55, 64, 11 S. Ct. 716, 35 L. Ed. 347 (1891); *Hall v. MacNeale,* 107 U. S. 90, 96, 2 S. Ct. 73, 27 L. Ed. 367 (1882); *Lettelier v. Mann,* 91 F. 917, 919 (C. C. S. D. Cal. 1899); *Trimpak Corp. v. Schenectady Lumber Co.,* 29 F. Supp. 85, 89 (N. D. N. Y. 1939); *Freydberg Bros., Inc. v. Hamburger,* 17 F. 2d. 300, 303 (D. Md. 1927).

In the pending case the Court is convinced that these 1956 public uses, on sales and actual sales of the ultimately patented product were not experimental tests but were commercially designed to promote a market which Cataphote would be ultimately able to exploit on a larger scale when it had developed suitable applicator machinery.

Defendant will prepare proposed findings, conclusions of law and a judgment, serve the same on plaintiff and lodge them with the Court.

United States District Court
Northern District of California

No. 40985

Cataphote Corporation, an Ohio corporation,
Plaintiff-Counter-Defendant,
vs.
De Soto Chemical Coatings, Inc., a Delaware corporation,
Defendant-Counter-Plaintiff,
Perma-Line Manufacturing Corporation of America, an Illinois corporation,
Additional Defendant on Counterclaim.

[September 24, 1969]

MEMORANDUM OF DECISION

This case came on for trial on January 27, 1969, before the court without a jury on the issues raised by the counterclaim of defendant De Soto against plaintiff Cataphote and against Perma-Line.

Upon review of the evidence and upon consideration of the arguments of counsel, the court is of the opinion that counterclaimant De Soto has not met the burden of proving violation of the anti-trust laws by plaintiff Cataphote and by Perma-Line or by either of them.

The court therefore, finds that Cataphote did not knowingly or wilfully misrepresent facts to the United States Patent Office to secure issuance of the patent in suit; that

Cataphote did not wilfully or knowingly misrepresent that the invention disclosed in its application of November 12, 1957, had not been in public use or on sale more than one year prior to filing of the original application; that Cataphote did not knowingly or wilfully misrepresent that Poole was the inventor of the subject matter added to the original application by the continuation in part of the application of December 18, 1959; that Cataphote did not knowingly or wilfully broaden its claims to cover developments of others as learned by Cataphote during prosecution of its application; that Cataphote did not make unwarranted threats of patent infringement litigation; that neither Cataphote nor Perma-Line entered into their licensing agreement for the purpose of prosecuting unwarranted patent infringment actions for their mutual benefit nor did either Cataphote or Perma-Line cooperate to suppress evidence bearing upon the validity of the patent in suit; that the acts and conduct of Cataphote and Perma-Line and any misrepresentations of them or either of them were not with any fraudulent intent or with intent to violate the anti-trust or patent laws of the United States, but were done and made in good faith for other purposes.

The court concludes that neither plaintiff Cataphote nor Perma-Line violated any provision of the anti-trust laws of the United States, as alleged by defendant De Soto, and that plaintiffs Cataphote and Perma-Line are entitled to judgment in their favor on the issues raised by the counterclaim of De Soto.

This memorandum constitutes the findings and conclusions of the court and it is now ordered that judgment

be, and is hereby accordingly so entered; that said counterclaim be dismissed with such statutory costs of suit to Cataphote and Perma-Line, respectively, as may have been incurred in the defense of the De Soto counterclaim. Dated: September 24th, 1969.

William T. Sweigert
United States District Judge

Perma-Line Manufacturing Corporation
of America

Telephone
WAbash 2-7181

750 South Clinton Street
Chicago 7, Illinois

October 12, 1962

Mr. Charles Searight
Cataphote Corporation
Jackson, Mississippi

Dear Mr. Searight:

I enclose herewith copies of letters of September 26, October 1, one letter of October 2, two letters of October 4 and one letter of October 10 with reference to your law suit against DeSoto Chemical Corporation under the Poole Patent.

I have advised Mr. Felshin and Mr. Lipkins that we have a licensing arrangement with your company under the Poole Patent and that they are to furnish no information whatsoever to any of the attorneys in this matter but they are to refer all inquiries to me.

I hope that the correspondence from Hoppe and Mitchell will be helpful to you and your attorneys.

I have asked your Bookkeeping Department to put your Invoice No. 38520 in a suspense account for the time being. In the light of the continuing of extensive sale and manufacture of thermoplastic striping by both DeSoto Chemical Corporation and Crystalex, we must assume for the time being at least, temporary failure of consideration under the terms of our license contract with you.

It is our fervent hope that you will be successful and soon in proving that your patent is valid and that both Crystalex and DeSoto are in an infringement position so that our exclusive posture under the license can be established and the harrowing competition of DeSoto and Crystalex can be eliminated. If, as and when this happens, we will, of course, promptly make all the payments called for under the terms of said contract.

I am certain that I will be contacted by DeSoto attorneys very soon and I should like to discuss with you the approaches that I should make. Would you please call me as soon as possible? I understand that you will be back on Monday, October 15, and I hope that I will hear from you on that day.

Very truly yours,
Perma-Line Manufacturing Corporation of America

/s/ By Morris Alexander
Morris Alexander, President

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Encls.